Harbour Canadian Dividend Fund
Third-quarter 2019 Commentary

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Class F returns (in %) as at September 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (06/12/2006)
Harbour Canadian Dividend Fund	22.0	12.4	9.0	5.8	8.3	7.0

Sources: Bloomberg Finance L.P. and Harbour Advisors, as at September 30, 2019.

Market Overview

- It was status quo over the third quarter of 2019. The quarter was filled with all the same types of headlines that pervaded the prior quarters, including the U.S.-China trade dispute, what the U.S. Federal Reserve (the "Fed") should do regarding monetary policy (especially interest rates) and whether U.S. President Donald Trump should be impeached. Plus, we can add the temporary inversion of the U.S. yield curve and the attack on Saudi Arabia's oil infrastructure. But, in the end, both Canadian and U.S. markets closed higher than when the quarter started, certainly supported by two interest-rate cuts from the Fed. Our broader view remains that we are in a slow-growth environment that will have temporary periods of above-trend growth and temporary periods below trend. A below-trend period could meet the technical definition of a recession (two quarters of negative gross-domestic-product growth), but, at this point, we believe any recession would be mild, and thus we are not moving aggressively to a defensive posture for Harbour Canadian Dividend Fund (the "Fund"). The modest growth expectation is supported by the strong employment picture in North America, which is constructive for consumer spending. Business spending is being impacted by the U.S.-China trade dispute, creating odd inventory cycles as companies try to navigate the on/off imposition of tariffs. However, we believe business will find a way to get product to consumers, if there is the appetite to spend.

- A heightened level of caution would derive from a significant bump in inflation. If central banks are forced to raise interest rates, it could stifle the economy quickly given the high levels of consumer and government debt. The fallout from the attack on Saudi Arabia is something we monitored closely as a substantial spike in the price of oil would drive inflation higher, but that did not materialize, confirming our thesis that the world is awash in oil thanks to the shale-oil revolution. We have maintained a relatively small Fund exposure to the energy sector. The less tangible risk element to consider is investor sentiment, which can turn quickly. However, trade news, impeachment cases and missile attacks all seem to have been shrugged off by consumers and the market, but we will continue to watch for signs of a shift.

Performance Summary

- Over the quarter ended September 30, 2019, Class F of Harbour Canadian Dividend Fund (the "Fund") returned 8.3% while the Fund's benchmark, the S&P/TSX Composite Total Return Index, returned 2.5% over the same period. We had a number of Fund positions perform well, with no substantial detractors. The cannabis group detracted from the benchmark's return, but the Fund had zero exposure to this sub-group during the quarter.

Contributors to Performance

- Top contributions to the Fund during the quarter came from investments in the TMX Group Ltd., the company that operates the Toronto Stock Exchange amongst other services; KLA Corp. (formerly KLA-Tencor Corp.), which sells test equipment to the semiconductor industry; and Brookfield Infrastructure Partners L.P., the global owner and operator of various utilities.

Detractors from Performance

- Holdings in Gilead Sciences, Inc.; Nutrien Ltd.; and Canadian Pacific Railway Ltd. detracted modestly from the Fund's performance during the quarter. We continue to hold Fund positions in Gilead Sciences and Canadian Pacific Railway, but we sold the Fund's position in Nutrien.

Portfolio Activity

- During the quarter, we sold the Fund's position in Wheaton Precious Metals Corp. Generally, we do not carry much Fund exposure to commodities as there are not many companies in the sector that can be viewed as great long-term compounders, but we will participate in the sector if we believe assets are undervalued and there is opportunity for additive trades.

- Also during the quarter, we added Fund positions in Canadian Tire Corp., the Canadian retailer; and Brookfield Property Partners L.P., the owner and operator of commercial real estate, including various mall properties. In both cases, we believe the businesses to be substantially undervalued due, in part, to the perceived threat from e-commerce reducing the value of brick-and-mortar retail locations. Our view is the data indicates shopping excursions are still part of the social fabric and, in the case of Canadian Tire, the company is building a strong omni-channel shopping platform.

- Other than the aforementioned changes, there were some additions and trims to the Fund portfolios as we always look to rotate to the greatest return opportunities while maintaining the overall quality bias of the portfolios. See the explanation below for more details on our investment process.

- It gives us comfort that there were a number of contributors to the Funds' positive performance during the quarter as opposed to a single stock making an outsized contribution, and we will remain diligent in providing diversified portfolios.

Outlook

- Looking ahead, we will stay the course. We're holding to our view of continued slow growth with the associated ebbs and flows. There is opportunity for good operators to grow their business, and we will maintain the emphasis on recurring revenue to help protect the Fund through periods of economic slowdown.

Quality Optimized Returns (QOR) Process

We implement our investment philosophy through our QOR process. We utilize concentration to add value, which makes the analytical work on individual companies the most critical input. We target consistent and compelling rolling three-year returns, and we are all analysts. As a team, we have developed a method to rank all potential investments on a grid that considers the business quality and risk-adjusted returns of the Funds' investments.

1. We begin by applying a quality screen to the available universe of stocks to filter out companies that we do not consider to be investable.
2. Of the companies eligible for investment, we conduct bottom-up research to further evaluate the inherent business risk (quality) and estimate the fair value of any given business based on our own internal financial framework. The predictability of the business is captured in the risk adjustment. The current market price, the fair value and the risk adjustment are used to calculate the risk-adjusted return.

3. Every potential investment gets a quality tag such that all opportunities can be mapped onto our grid (see below). The highest quality rank goes to those companies with high returns on capital, predictable revenues, a strong balance sheet and potential to continue to grow by redeploying capital at high rates of return. At the other end of our spectrum would be a commodity company with modest returns on capital, limited predictability and sufficient access to capital to survive a prolonged downturn.
4. The positioning on the grid determines the potential weight of the company in the Fund portfolios, with higher quality and higher risk-adjusted return being the largest weights. This allows us to consistently construct portfolios with a majority of the capital deployed at the higher end of the quality spectrum.
5. The market price of a company's stock and analyst views are continuously updated to ensure we can rotate to the highest return ideas while maintaining our quality bias.

We do not consider the benchmark's composition when constructing the Fund portfolios, but we do impose sector and end-market constraints to ensure diversification and also monitor and maintain ample liquidity.

QOR Grid

Risk Adjusted Return	**QUALITY**						
	Elite						**Commodity**
	Largest Weight						
							Smallest Weight

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